

## Match Game: How to Cope With a Suspended 401(k)

**Starbucks** (*SBUX*<sup>1</sup>) employees got some good news this week. After announcing in December that 401(k) matches for its employees would depend on the coffee company's future performance, *Starbucks*<sup>2</sup> said the match would remain in effect for 2009. After that, there are no guarantees.

The market's losses caused palpable damage to retirement accounts over the last year: The median rate of return for 401(k) plans was negative 28.3% during 2008. Now, however, many workers are missing out on one of the biggest benefits of this investment vehicle.

Reducing or suspending 401(k) matches has become a flexible cost-saving tactic for companies under financial pressure over the last couple of years. Research by Hewitt Associates, a human resources consultancy, suggests firms can save, on average, more than \$1,500 per employee each year by suspending their 401(k) match (assuming the average employer match of 50 cents to the dollar up to 6% of pay). A typical large company like Starbucks may save \$25 million a year, according to Hewitt, and an average midsize company could save more than \$10 million.

A wide variety of companies have turned to this money-saving strategy: **FedEx** (*FDX*<sup>3</sup>), **J. Crew** (*JCG*<sup>4</sup>), **Weyerhaeuser** (*WY*<sup>5</sup>) and the Milwaukee Symphony Orchestra, among others, have scaled back or stopped matching their workers' 401(k) contributions this year. The Pension Rights Center, a consumer group that promotes retirement security, counted more than 280 companies that have done so since last year.

When the economy slipped after the dot-com bust of 2001-02, employers made similar moves. But it was "nothing like what we've seen with this most recent downturn," says Bill McClain, a defined contribution consultant at Mercer, a benefits administration provider that tracks trends in compensation.

The cutbacks are unlikely to last, though. Employers know that a good retirement benefits package is a compelling draw for workers and that they'll need to keep them if they want to attract and retain talent.

"I think once the economy turns around, most companies that do these temporary [match] suspensions will resume them," says Jack VanderHei, the research director at the Employee Benefits Research Institute, a nonprofit firm that studies retirement and savings.

So what should workers do to make up for lost retirement money? Here are three ways to shore up your savings in the recession.

### Ramp up contributions

When an employer takes away their match, the free money that makes saving in a 401(k) such a no-brainer disappears, undermining a worker's incentive to keep funneling part of their paycheck into the plan. So the real challenge for employees is to overcome the loss of that motivator, VanderHei says. Without stellar investment returns – and not many people are depending on those – the only way to recoup losses is to step up your contributions.

Get a feel for how much should be going into your account this year relative to your overall retirement picture. Say your magic number is 9% of your compensation and that your employer had been putting in 3% before temporarily suspending its match. If you want to stay on track, you should not only continue putting in the 6% you had before, but – at least temporarily, until the match returns – make up the 3% taken away, VanderHei says.

### Consider a Roth

If you think your tax rate will rise in the future, consider adding a *Roth*<sup>6</sup> to your retirement account, says Bryan Place, a certified financial planner and the founder of Place Financial Advisors in Manlius, N.Y. (Not all 401(k) plans offer a Roth provision; workers should find out if their employer's plan has this as an option.)

No one can predict where tax rates will be in the future, but most believe they're likely to rise as the government tries to offset ballooning deficits and the cost of other federal programs like Medicare, VanderHei says.

Let's say you're in the 25% tax bracket now. You anticipate your tax bracket will go up to 35% when you retire. You can contribute to a Roth with after-tax dollars today – at that lower 25% rate – and take it out tax-free when you retire. With a traditional 401(k) plan, you'd contribute pretax dollars but pay taxes on the money you take out at the 35% rate later.

## Catch up

Older workers are at more risk of falling short in retirement, and the match suspensions magnify that risk. Not only have plan participants older than 55 decreased their contribution rates since last September, but only 8% of participants over 50 who contributed in 2008 took advantage of “catch-up contributions,” according to data compiled by Mercer.

If you're over age 50 and already contributing the maximum (\$16,500 for this year) to your 401(k), check to see if you can do a catch-up contribution, McClain says. For 2009, you can put an additional \$5,500 of your pay on a pretax basis into your 401(k) – totaling \$22,000 for the year. You'll have to notify your plan that you want to allocate a certain amount to participate in the catch-up.

<sup>1</sup><http://www.smartmoney.com/quote/SBUX/>

<sup>2</sup>[http://news.starbucks.com/article\\_display.cfm?article\\_id=251](http://news.starbucks.com/article_display.cfm?article_id=251)

<sup>3</sup><http://www.smartmoney.com/quote/FDX/>

<sup>4</sup><http://www.smartmoney.com/quote/JCG/>

<sup>5</sup><http://www.smartmoney.com/quote/WY/>

<sup>6</sup><http://www.smartmoney.com/personal-finance/retirement/understanding-the-roth-401k-17679/>

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